

SUBCOMMITTEE NO. 4

Agenda

Michael J. Machado, Chair
Tom Harman
Christine Kehoe



Part A
Monday, April 21, 2008
10:00 a.m.
Room 3191

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State Administration—General Government—Judiciary—Transportation

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0750 Office of the Lieutenant Governor

Under California's Constitution, the Lieutenant Governor (LG) serves as Acting Governor whenever the Governor is absent from the state, and automatically becomes Governor if a vacancy occurs in the Office of Governor. The Lieutenant Governor is also President of the Senate and votes in case of a tie. In addition, the LG serves as a voting member of the Board of Regents of the University of California and a voting member of the Board of Trustees of the California State University system. Finally, the LG serves on the three-member State Lands Commission, which oversees the control and leasing of millions of acres of state owned land, including offshore oil resources, as well as use and permitting for all navigable waterways in California.

The proposed 2008-09 Budget includes total General Fund expenditures of \$2.8 million, and approximately 30 positions, for support of the Office of the Lieutenant Governor. This is a decrease of approximately \$382,000, or 12.1 percent, below estimated current year expenditures. This change is primarily the result of two factors (1) elimination of a \$100,000 one-time augmentation in 2007-08; and (2) an ongoing \$307,000 budget cut to help close the State's General Fund deficit.

Staff Comments: The proposed ongoing budget reduction would result in the non-filling of vacant positions and a reduction in other operating expenses within the office.

Staff Recommendation: Approve the budget, including the budget reduction.

0690 Office of Emergency Services

The primary purpose of the Office of Emergency Services (OES) is the coordination of emergency activities to save lives and reduce property losses during disasters, and to expedite recovery from the effects of disasters. During an emergency, the OES functions as the Governor's immediate staff to coordinate the state's responsibilities under the Emergency Services Act and applicable federal statutes. It also acts as the conduit for federal assistance through natural disaster grants and federal agency support. Additionally, the Office of Homeland Security (OHS) develops, maintains, and implements a statewide comprehensive homeland security strategy to prevent terrorist attacks within the state, reduce the state's vulnerability to terrorism, minimize damage from attacks that may occur, and facilitate the recovery effort. The OHS also serves as the state administering agency for federal homeland security grants and the state's primary liaison with the U.S. Department of Homeland Security.

Proposed for Vote Only/Consent

1. **Nuclear Planning Assessment Special Account (BCP #31).** Provides a \$99,000 to reflect the Consumer Price Index (CPI) rate increase. This augmentation is guaranteed by G.C. 13308.05

2. **Waste Isolation Pilot Program (BCP #35).** Provides a \$91,000 increase in reimbursement authority. Activities related to the Waste Isolation Pilot Program are reimbursed by the California Energy Commission.
3. **High Technology Theft Apprehension and Prosecution Fund (HTTAP) (BCP #27).** Adds Budget Bill language to revert unused HTTAP funds back to the General Fund at the end of each fiscal year.
4. **Mentoring Children of Incarcerated Parents Program (BCP #24).** *Reduces* Federal Trust Fund Authority for the program by \$270,000, because the program ended January 31, 2007.
5. **Technical Corrections to the budget display (BCP #25).** Makes technical changes to the budget display to provide a more accurate reflection of spending by individual programs.
6. **Residential Substance Abuse Treatment (BCP #17).** Provides a \$970,000 increase in Federal Trust Fund Authority to utilize available funding from the Bureau of Justice Assistance.
7. **Justice Assistance Grants (BCP #20).** Provides 4 permanent positions funded by existing Federal Trust Fund Authority to address additional workload created by federal mandates, an increase in federal grants, and increased law enforcement participation in the Counter Drug Procurement Program.
8. **California Specialized Training Institute (CSTI) Reimbursement Authority (BCP #18).** Provides a \$1.3 million increase in reimbursement authority to accommodate a “surge in demand” for all-hazard disaster management training and exercise services provided by CSTI, because few others offer courses that meet California standards.
9. **Port and Maritime Security Program (Item 0690-101-6073).** The budget provides \$57 million in Proposition 1B funding for allocation. Chapter 181, Statutes of 2007 (SB 88) required the Office of Homeland Security to incorporate the State’s most urgent security needs, balance the demands of each port and provide reasonable balance in the geographic distribution of funds into its funding determination. No issues have been raised with this item. However, staff recommends the following Budget Language be added to provide clarity on the expenditure of this funding, “1. Of the amount appropriated in this item, allocation of funding shall be done in a manner consistent with Chapter 181, Statutes of 2007 (SB 88).”
10. **Transit Safety Security Program (Item 0690-101-6061).** The budget provides \$100 million in Proposition 1B funding for allocation. Chapter 181, Statutes of 2007, specifies that sixty percent of the bond funds shall be allocated according to the existing statutory formula for State Transit Assistance, twenty-five percent shall be

allocated for capital expenditures to regional public waterborne transit agencies, and fifteen percent shall be allocated to intercity passenger rail systems. No issues have been raised with this item. However, staff recommends the following Budget Language be added to provide clarity on the expenditure of this funding, "1. Of the amount appropriated in this item, allocation of funding shall be done in a manner consistent with Chapter 181, Statutes of 2007 (SB 88)."

Staff Recommendation: Approve above items as budgeted with any identified modifications.

Proposed for Discussion

- 11. Public Safety Radio Strategic Planning Committee (PSRSPC).** Currently, the Office of Emergency Services chairs the PSRSPC. Responsibilities of the PSRSPC include development and implementation of a statewide integrated public safety communications system that facilitates interoperability among state public safety departments and coordinating other shared uses of the public safety spectrum consistent with decisions and regulations of the FCC. According to the most recent PSRSPC report, the State's public safety agencies, through the PSRSPC, have decided to continue to operate their own separate radio systems (i.e. forego the inherent interoperability that would result from a shared, multi-agency radio system) and, instead, to adopt a "system of systems" approach.

Staff Comments: OES should provide the subcommittee with an update on radio interoperability that minimally addresses:

- The coordination of technology changes with upgrading radios for interoperability.
- Is there a standard for interoperability and is it being implemented?
- Is there a definition in operational terms of what constitutes a "system of systems"?

- 12. Emergency Management Performance Grant (EMPG) Increase.** The federal EMPG program provides resources to assist State and local governments to sustain and enhance all-hazards emergency management and response planning capabilities. The grant can be used broadly, for activities, contracts, and positions relating to disaster planning and management, and the funding requires a 50% cash or in-kind match from the State. The EMPG grant is administered by the OES.

Background: The 2007 baseline grant amount was \$15,390,351. In January 2008, the OES submitted a BCP indicating that due to a federal change, it anticipated receiving a \$5 million increase in EMPG funding for 2008-09, bringing the baseline to \$20,390,351.

Of the \$5 million increase, the OES requested \$3.4 million for state operations (BCP #26) which it would “match with existing resources.” The OES requested that the remaining \$1.6 million be applied toward 19 new positions in the three regional offices (BCP #1) and be matched with an additional \$1.6 million General Fund.

In April, the OES submitted a letter (SFL #2) indicating that it would receive a \$7.7 million baseline increase in EMPG funds - \$2.7 million more than anticipated in January. The OES requests that in 2008-09 \$2 million be given in one-time local assistance, and \$665,000 be retained for state operations (in addition to the previous \$3.4 million requested). In 2009-10, the OES requests retaining all \$2.7 million for unspecified state operations. The OES had indicated that it will use a “global” (in-kind) match for these funds.

Staff Comments: The EMPG grant is unusually flexible in both its utilization and matching guidelines. The necessity of absorbing \$4 million (more than half of the \$7.7 million increase) in state operations in 2008-09 and \$6.1 million in 2009-10 is unclear.

The flexibility of the EMPG funding uses warrants a more comprehensive discussion of OES spending priorities, and whether more of its highest priorities can be funded through EMPG. Moreover, the ability to use an in-kind State match calls for an examination of how to maximize the use of these federal funds using as little of the General Fund as possible, considering the state’s current fiscal situation.

OES’s Stated Spending Priorities:

Regional Operational Readiness (BCP #1). The OES requests \$3,294,000 (\$1,647,000 General Fund and \$1,647,000 EMPG) and 19 positions to increase readiness at the three regional offices. These offices provide administrative oversight and coordination of mutual aid, as well as direct service delivery in the areas of emergency preparedness, response, recovery, and mitigation efforts.

The proposed positions will be assigned to the three regional offices to increase effectiveness in emergency response and management, and to comply with additional state and federal reporting requirements.

Staff Comments: The OES is trying to plan for the possibility of multiple catastrophic events occurring simultaneously, rather than addressing an identified deficiency in services. Given the condition of the state General Fund, the existing level of regional office staff seems appropriate if the creation of new positions will rely on a General Fund match.

The grant’s matching flexibility should be taken into account. The necessity of relying on a General Fund match, rather than using \$3,294,000 EMPG funding for the positions and trying to find an in-kind match of existing resources is unclear.

OES State Operations Increase (BCP #26). The OES requests \$3,353,000 in Federal Trust Fund authority for state operations related to an increase in the Emergency Management Preparedness Grant. The total local assistance level of \$7,100,000 will remain the same.

EMPG Grant Increase – State Operations and Local Assistance (SFL #2). California's federal EMPG Grant has been increased, both in a one-time supplement of \$4 million and an on-going baseline increase of \$7.7 million. The OES requests that the \$4 million one-time augmentation fund 8 specific emergency preparedness and response projects, including the development of various emergency response coordination protocols. The OES also requests that \$5 million of the baseline increase be granted for BCP #1 and BCP #26.

In 2008-09 the OES requests \$665,000 of the remaining funds be used for state operations and a \$2 million Federal Trust Fund Authority for local assistance. The \$2.7 million EMPG baseline increase will be ongoing. In 2009-10, the OES requests the \$2.7 million increase in Federal Trust Fund Authority entirely for state operations.

Staff Comments: EMPG funds are loosely regulated, and can be used toward a variety of disaster preparedness, response, and coordination efforts, and should be used toward the OES's highest priorities. In both BCP #26 and SFL #2 the specific uses for the funds are unclear.

Can EMPG funds be used to backfill the \$1.9 million Mutual Aid reduction proposed in the Governor's Budget?

If the OES can match the most recent \$2.7 million EMPG increase with existing resources, is that \$2.7 million best absorbed by state operations or another priority?

Staff Recommendation: Hold open. An unanticipated influx of loosely regulated federal funds for emergency management and preparedness demands an exploration of OES funding priorities, and potential uses for new EMPG funds.

13. **Operational Area Satellite Information System (OASIS) (BCP #3).** The OES requests \$2 million General Fund to increase OASIS bandwidth. OASIS is the satellite system that provides redundant voice communications in the event the Public Switch Telephony Network fails (due to a manmade or natural disaster).

OASIS currently assures redundant satellite phone and data communications to Emergency Operational Centers in all 58 counties, the State Warning Center, the State Operational Center, and other state agencies. This funding would extend the lease on its current bandwidth, and expand the bandwidth to accommodate the need for OASIS in an emergency covering 50% of the state.

Staff Comments: It does not appear that the current bandwidth capacity of OASIS has created any major operational impediments in response efforts to date, and it is not clear whether potential deficiencies would exist due to technology, rather than a lack of mutual aid protocols. The California Highway Patrol and other entities currently have redundant phone and data communication systems.

Moreover, the use of a purely satellite system may not be the appropriate technology. The OES should look into more portable and less expensive options for achieving the same functionality before expanding the current system.

The OES has indicated that it has recently received a one-time federal Public Safety Interoperable Communications (PSIC) Grant, \$1.3 million of which can be applied to the OASIS program. This application would reduce the General Fund request to \$708,000.

Staff Recommendation: Hold open until funding sources and technology concerns are resolved.

14. **Critical Communications – Equipment Replacement (BCP #5).** The OES requests \$3 million General Fund to replace failing or obsolete telecommunications equipment used to respond to, and coordinate in, emergencies.

Specifically, the proposal provides for the following equipment replacement:

i. CLERS, FIRE & Mobile Relays	\$2,375,000
ii. UHF & MHz Cache Portable Radios/Accessories	\$ 540,000
iii. UHF & 800 MHz Mobile Radios	\$ 115,000

The equipment identified in this request is more than 5 years old and according to industry standard should be replaced. The replacement equipment will meet Federal Communication Commission requirements and be compliant with Project 25, the federal equipment and narrowband standards with which all such equipment must comply by 2013.

Staff Comments: The OES has indicated that a portion of the PSIC grant is has received can be used to off-set \$2.2 million of this General Fund request. OES has indicated that it will still request \$546,000 GF toward the match requirement, and \$300,000 toward ongoing maintenance of equipment, which is not covered by PSIC.

The specific PSIC match requirements should be explained, and possible in-kind matches explored in order to maximize the use of federal funds. Moreover, the necessity of \$300,000 GF for ongoing maintenance in 2008-09 is unclear.

Staff Recommendation: Hold open until funding sources and ratios are resolved.

15. **Capital Outlay – Southern Region Facility.** The OES requests \$963,000 General Fund for Preliminary Plans to build a new \$23.6 million Southern California Regional Emergency Operation Facility. The existing Southern Region facility is comprised of two modular buildings totaling 7,200 square feet, and is located at the Los Alamitos Armed Forces Reserve Center. The new facility proposed would be approximately 33,180 square feet in a permanent, newly constructed building that can serve as an alternate State Operation Center.

Staff Comments: The Southern Region facility was intended to be temporary, and OES believes it is not equipped to house the necessary staffing levels during a large Southern California emergency. However, the need for a structure nearly 5 times the size of the current facility has not been clearly expressed. OES has not explored the possibility of a joint use facility. Furthermore, additional GF pressure to staff a new facility has not been taken into account.

Staff Recommendation: Deny the request.

16. **Alert and Warning System (BCP #2).** The OES requests a \$230,000 General Fund increase to the Alert and Warning System, an externally managed system which notifies state and local agencies, media, and public of emergencies. This proposal creates 1 two-year limited-term position (\$95,000) for a system programmer who will manage technical/programming aspects of the Alert and Warning System not provided by the contractor. This position will include learning to operate the system, for an eventual transition to being operated entirely by OES staff, instead of outside vendors. Additional funding, (\$135,000) will be provided for the program, \$90,000 of which pays the vendor for maintenance and operation of the system.

Staff Comments: The impetus for moving the Alert and Warning System in-house is unclear. With a vendor-operated system, the state benefits from industry advancements and code updates applied to the system. If the current system is moved in-house, and operated by one person, it becomes a legacy system that is not continually updated and eventually not technologically supported.

Staff Recommendation: Deny the request. The OES should redirect resources to continue \$90,000 contract with vendor to maintain and operate the system.

17. **Coastal Region Office Relocation (BCP #6).** The OES requests \$32,000 General Fund in fiscal year 2008-09 and \$834,000 in 2009-10 to relocate the Coastal Region Branch Office out of downtown Oakland to another site. The Coastal Region Branch Office is one of the three regional offices that coordinate services and resources to support local governments during emergencies.

The OES has cited the following facility limitations as justification to move to a new location: 1) lack of available parking for equipment, 2) lack of available parking for staff in the event of an emergency, 3) cabling and communication line work must be completed by Lessor's vendor, 4) difficulty accessing the roof, and basement, and 5) inability to accommodate anticipated growth.

The \$32,000 General Fund 2008-09 funding will be used to find another facility.

Staff Comments: It is unclear how to determine the actual cost of this project (including equipment purchases, moving costs, lease cost, etc.) without having the OES having a specific site in mind. The OES asserts that the new location must meet a variety of unique needs, but has not yet found an appropriate space. The current lease is set to expire July 31, 2008, and the OES is in the process of renegotiating its lease for 2 years.

Staff Recommendation: Deny the request.

18. Headquarters Facilities Maintenance Increase (BCP #8). The OES requests \$198,000 General Fund - \$41,000 increased baseline to account for increased headquarters operation costs, and \$157,000 in one-time equipment expenses:

- \$90,000 Emergency power for all of Building A (currently only available in parts of the building)
- \$30,000 Dedicated A/C unit for Warning Center
- \$25,000 Dedicated A/C unit for IT server room
- \$12,000 Dedicated man-lift to change light bulbs throughout the facility

Staff Comments: OES requests a dedicated A/C unit is needed for the IT server room to keep the equipment from overheating and failing. The Warning Center A/C unit is requested to make the room more comfortable for staff working after hours, and to avoid the inefficiency of running the entire first floor A/C when staff is only present in the Warning Center (which operates 24 hours a day). The \$41,000 increased baseline is primarily for the rising cost of utilities and building maintenance. While emergency power for all of Building A is ideal, there is no indication that its absence has had an impact on the OES's ability to coordinate or respond to emergencies. A dedicated Warning Center A/C unit is not essential for maintaining the Warning Center, and it is not clear that the inefficiency of running the first floor A/C after hours (on the days employee comfort requires it) is enough of an expense to off-set a \$30,000 A/C unit this fiscal year.

Staff Recommendation: Approve only \$25,000 for IT server room A/C unit. Deny remainder of requests totaling \$173,000. The OES has indicated that the IT server room gets dangerously hot for the essential computer/server equipment integral to the response and operations functioning. Risking the functionality of this equipment

would be imprudent as it directly impacts public safety during an emergency and replacing the equipment would be an even larger financial burden.

19. **California Energy Council Report - Outside Contract (BCP #9).** The OES requests \$600,000 General Fund of ongoing funding to hire outside consultants to prepare the California Energy Council's biennial report required by AB1889. The report to the Legislature identifies gaps in emergency preparedness efforts and evaluates response strategies used in the past two years.

Staff Comments: The need for external consultants to prepare the report, due to workload or expertise, is unclear. This proposal was submitted during the 2007-08 budget process and was not approved. In 2007-08, the LAO found no reason to believe that existing OES staff could not prepare this report, and recommended against funding this request.

Staff Recommendation: Deny the request, in light of other pressing General Fund needs.

20. **Wildland Firefighting (BCP #11).** The OES requests \$10.2 million in 2008-09 and \$9.7 million ongoing Insurance Fund dollars to pay for fire engine replacements and upgrades, as well as additional firefighters. Under this change, fire engines throughout the state would be staffed by 4 firefighters per engine, rather than 3, at all times.

- \$1,089,000 Six positions to manage current fleet
- \$424,000 Increased maintenance costs for current fleet
- \$54,000 Increased fuel costs for current fleet
- \$8.6 million Five positions and 131 new fire engines

Staff Comments: The source of funding for this proposal is predicated on the Department of Insurance imposing on insurers an annual assessment of 1.25 percent of the premium for each commercial and residential multi-peril insurance policy. On a premium base of \$10.5 billion, the proposed assessment would generate approximately \$109 million in 2008-09 and an estimated \$125 million annually thereafter. Under the Governor's budget proposals: (1) \$77.6 million would be for CALFIRE staff, activities and equipment; (2) \$9.2 million for Military Department staff and equipment; (3) \$1.9 million to OES to supplant baseline GF supporting the Mutual Aid Response program; and (4) \$10.2 million for this BCP.

On January 29, the Full Committee heard this issue and raised numerous concerns with the viability of the funding proposal. In addition, the Department of Insurance in a letter to the Chair of the Full Committee cited constitutional, implementation, and mandatory sharing of non-individual risks issues with the funding proposal.

Staff Recommendation: Deny the request without prejudice, due to the lack of a stable funding mechanism. The subcommittee should revisit this issue if the OES can provide an alternative, non-GF funding source.

21. **California Multi-jurisdictional Methamphetamine Enforcement Teams (Cal-MMET) (BCP #15).** The OES requests \$20.1 million ongoing General Fund to permanently continue the Cal-MMET Program. Originally funded with \$9.5 million, to serve 6 high-need counties in 2001, this program was expanded to its current scope of 41 counties in 2005-06.

The War on Methamphetamine Program funds local anti-drug task forces to combat methamphetamine production and distribution, with specific strategies determined by local sheriffs' departments. Funding has been used to provide search warrant assistance, undercover agents, expert testimony, community training, etc.

LAO Recommendation: Do not extend the \$20.1 million increase, and reduce the base funding (\$9.5 million) by 25%. The LAO also recommends making the grants *competitive*. The LAO raised concerns about the lack of a comprehensive evaluation and the effectiveness of the program. The LAO has indicated that much of the methamphetamine production has moved to Mexico, as well, reducing the prevalence of labs in California. The LAO also considers Cal-MMET Program to be duplicate funding to that permanently appropriated to CALMS for the same purpose.

Staff Comments: A final report on the success of the program expansion will not be submitted to the Legislature until October 2008, and the preliminary report lacked substance and quantifiable benchmarks. Other issues to consider include:

- The comparison data of 2005-06 (before the expansion) and 2006-07 is not sufficiently disaggregated to be meaningful.
- The comparison data is incomplete. According to the OES staff, the numbers reported are a reflection of the number of arrests and seizures they attribute to the extra funding, which is utilized differently in each county and not easily separated out from other law enforcement money. Additionally, without a county-by-county comparison, it is unclear if certain counties or methamphetamine combat strategies have been more effective than others.
- This program has the same purpose to, and employs similar strategies as, the Department of Justice's CALMS program. The difference is that CALMS uses state employed agents and law enforcement to staff task forces, instead of funding locals to create their own. The October report is supposed to be an evaluation of both programs.

Staff Recommendation: Hold open, pending the outcome of the Subcommittee discussion on the broader topic of local government subventions.

22. **Parole Revocation Victim Advocacy Program (BCP # 16).** The OES requests 1 position and \$1.1 million from the Victim/Witness Assistance Fund to permanently continue this program (currently a two-year pilot), which supports victim/witnesses during parole revocation proceedings.

\$100,000 funds 1 Criminal Justice Specialist to administer \$1 million in local assistance funds. Local assistance funds operate 8 centers statewide, and provide restraining order services, assistance with compensation paperwork, counseling and referral services, escorts during court hearings, etc.

Staff Comments: This program has not been evaluated, and it is unclear whether accountability systems exist. With upwards of 40,000 parole revocation hearings annually, the proposal provides two anecdotes about services victim/witnesses have received, but provides no data about how many victim/witnesses are being served and in what ways.

Staff Recommendation: Deny the request.

23. **Internet Crimes Against Children (ICAC) Program (BCP #19).** The OES requests \$1 million payable from the Restitution Fund to continue, on a permanent basis, funding for the ICAC Program. ICAC is a local assistance grant program focused on the investigation and prosecution of crimes committed against children involving the Internet. Proposed ongoing funding would support existing ICAC task forces in San Diego, Los Angeles, San Jose, and Sacramento.

Staff Comments: On April 10, the Subcommittee raised concerns about the long-term solvency of the Restitution Fund and the appropriate uses of these funds. For future action, the OES should investigate available federal funding.

Staff Recommendation: Deny the request.

24. **Office of Gang and Youth Violence Policy (BCP #28).** The OES requests \$1,278,000 General Fund and 7 positions to carry out the provisions of AB 1381 (Chapter 459, Statutes of 2007) which established the Office of Gang and Youth Violence Policy (OGYVP). AB 1381 specifies that the OGYVP shall be responsible for identifying and evaluating state, local, and federal gang and youth violence suppression, intervention, and prevention programs and strategies, along with funding for those efforts. The director shall be responsible for monitoring, assessing, and coordinating the state's programs, strategies, and funding that address gang and youth violence in a manner that maximizes the effectiveness and coordination of those programs, strategies, and resources. This proposal provides staff and start up costs for the OGYVP.

Background. The 2007 Budget Act appropriated \$446,000 GF to establish a statewide Anti-gang Coordinator. In addition, the 2007 Budget Act contained \$9.5 million Restitution Fund, for grants (with a dollar-for-dollar match requirement) to cities and community-based organizations to assist in addressing gang issues. Budget Bill language allows DOF to transfer up to 3-percent of the funds appropriated (in this case approximately \$285,000) for administration of the grant programs.

Staff Comments: In early January 2008, the Governor and the Leadership of the Legislature met to discuss ways to reduce overall GF expenditures in light to the fiscal condition of the state. One option was deferring the implementation of recently enacted legislation. In mid-January, the Chair of the Budget Committee, with the concurrence of the Vice-Chair, directed the subcommittees to begin examining the funding of all newly enacted statutes.

Staff Recommendation: Deny the request. The denial of the BCP will leave intact the existing 2007 level of funding for the Anti-gang Coordinator, as well as the ability to utilize up to \$285,000 to administer the anti-gang grant program.

25. Administrative Positions (BCP #36). The OES requests that \$377,000 be diverted from other OES positions to fund a Deputy Director of Communications and a Senior Advisor to the Chief Deputy Director. This proposal uses existing OES funding.

Comments: The proposal to redirect funding in order to establish two high-level administrative positions does not appear to be a technical correction as described in the summary of the BCP. This BCP was ranked as one of the lowest priorities for the OES. If OES does in fact have available General Fund support, it should be redirected to other, higher priority, areas.

Staff Recommendation: Deny the request.

8860 Department of Finance

The Department of Finance is responsible for advising the Governor on fiscal matters, preparing the annual executive budget, evaluating the operation of state government, and developing economic and demographic information. In addition, the department oversees the operation of the state's accounting and fiscal reporting system. The Office of State Audits and Evaluations assesses the operation of the state's programs. Finally, the Office of Technology, Review, Oversight, and Security serves as information technology project fiscal review unit.

The Governor's budget proposes expenditures of \$50.1 million (\$30.4 million General Fund and \$19.7 million in reimbursements) to support the activities of DOF in 2008-09.

This is a decrease of \$5.8 million, or 9.6 percent, below estimated current-year expenditures. The decrease is due primarily to the transfer of the FI\$Cal IT project to its own budget item (Item 8880), the proposed Budget Balancing Reduction (10% reduction) of \$3.4 million; and adjustments due to one-time funding in the current year.

The following item has been recommended for consent / vote only.

- 1. Business, Transportation and Housing Budget Unit two-year limited term position (BCP# 3).** The DOF is requesting \$119,000 from Proposition 1B bond funds for a two-year limited term position. As part of a 2007 Budget, \$950 million in local streets and roads bond funding was appropriated (Phase 1); statute specifies that cities and counties submit project descriptions to the DOF. The DOF is required to approve the projects for completeness and report monthly to the State Controller on local entities eligible to receive allocations from Proposition 1B. In the current year, the DOF administratively established a position to begin the process, instructions and spreadsheets in order for cities and counties to apply for bond funding.

DISCUSSION / VOTE ISSUES

- 2. Mandates Unit (BCP #1).** The budget requests \$468,000 General Fund and 4 positions to permanently establish the mandates unit within the DOF. In 2006-07, the Legislature supported the establishment of a mandates unit within DOF, on a two-year limited-term, to address and coordinate local government (non-school related) mandate activities and develop, examine, investigate / evaluate, and implement policies and procedures to be used to reform the reimbursable mandates process and create methods to conduct activities required of DOF.

Staff Comment:

The current mandates unit has achieved success in participating in all phases of the Commission on State Mandates process in order to reduce the test claims backlog and make timely comments at Commission hearings – thereby reducing GF cost exposure. The Subcommittee may want to hear how the Mandate Unit will (1) assist the Legislature in determining costs when legislation has been identified as having local mandate implications; and (2) as more of the Commission's test claim backlog is related to education mandates, how will this unit assist with these?

By providing timely comments at Commission hearings this unit has eliminated the need for extensions of hearings, as well as assisting in the creation of alternative costing methods agreeable to local governments (AB 1222), there are benefits over the long run.

Staff Recommendation: Approve this request.

3. **Staff for Estimate Process (BCP #5).** The DOF requests \$228,000 GF and one Principal Program Budget Analyst and a part-time retired annuitant to ensure the quality of analyses of the estimates in the Health and Human Services unit. One full-time position would work to improve unit training on estimates, constitute a permanent resource for unit staff, and provide greater attention to estimate issues during peak periods. The second position would serve seasonally to provide additional expertise and assistance during compressed review periods. The positions would be established on a three-year limited term basis.

Estimates are submitted by the departments to DOF twice annually, once in the Fall and once again in the Spring. The Estimates package contains adjustments to enrollment and caseload, and also significant policy changes.

Staff Comment:

At present, the Health and Human Services unit at DOF has 21 analyst level or higher personnel. It would seem prudent for DOF to redirect existing personnel in the short-term to assist in the enhancing the Estimate process with other departments.

Staff Recommendation: Deny the request.

4. **Change in Submission of May Revision.** The DOF is proposing budget trailer bill language that would change the date May Revision is provided to the Legislature, from May 14 to May 21. May Revision provides an updated estimate of GF revenues, any proposals to reduce expenditures, or changes to reflect caseload enrollment or population changes. DOF indicates that it would get better quality information and analysis with the additional week.

Staff Comment: The date change in the submission of May Revision was done through a collaborative process between the administration and Legislature. It is difficult to discern what a date change such as this would mean to the Legislative calendar and the ability for the Legislature to insure a thorough and timely analysis of the May Revision. In a year where major budgetary and policy changes are being proposed by the administration, it would seem that a proposal such as this should be examined in a less contentious environment.

Staff Recommendation: Deny the request.

5. **Change in the Approval of Out-of-State Travel (OST).** The DOF is requesting trailer bill language that releases them from reviewing OST requests by departments. Under current law, both the Governor's office and DOF review such requests. In this instance, DOF typically makes sure any OST request is not in excess of total requested OST schedules submitted by departments in the beginning of each fiscal year.

Staff Comments: DOF indicates this proposal is part of evaluating overall workload and eliminating, from their perspective, items of lesser value. One problem is it is unclear if this too will be a low-priority area for administrative oversight by the

Governor's office, since that office (at a future hearing) is also slated for a budget reduction. From an administrative perspective, this proposal would not seem to be prudent.

Staff Recommendation: Deny the request.

8880 Financial Information System for California (Fi\$Cal)

The Financial Information System for California (Fi\$Cal), is a "Next Generation" information technology (IT) project. The purpose of this project is to create and implement a new statewide financial system which will encompass the areas of budgeting, accounting, procurement, cash management, financial management, financial reporting, cost accounting, asset management, project accounting, and human resources management.

Fi\$Cal will be a single Enterprise Resource Planning (ERP) system, a set of software applications that will integrate and streamline the aforementioned business processes. Aging legacy systems, inefficient "shadow" systems, and duplicate processes have been identified throughout the state's departments and agencies, and Fi\$Cal is the multi-agency project proposed to solve these system failures. Fi\$Cal will be rolled out in 5 "Waves", over a multi-year period, to more than 100 departments and agencies. Fi\$Cal will be managed by a partnership of the Department of Finance (DOF), the State Treasurer's Office (STO), the State Controller's Office (SCO), and the Department of General Services (DGS).

The Fi\$Cal project was proposed during the 2007-08 budget process as an entirely General Fund project. However, due to a number of factors including General Fund expense, the Legislature requested more information on alternative funding scenarios, vendor accountability, and formalization of control agency roles.

Governor's Budget Proposal

The 2008-09 Budget proposes to proceed with statewide implementation of Fi\$Cal over 8 years, with a total cost of \$1.6 billion paid over 10 years (See attachment). Proposed funding is \$40.1 million (\$2.4 million General Fund, and \$37.7 million special funds) for 98 positions.

The funding beyond 2008-09 for this multi-year project would come from a combination of Bond Anticipation Notes (BANs) and Certificates of Participation (COPs). Issuing BANS, which are short term bonds collecting capitalized interest, would fully fund Fi\$Cal through 2011-2012. In 2012, state departments and agencies benefiting from Fi\$Cal

would begin to “purchase” COPs out of their appropriated budgets, effectively beginning to pay for the use of Fi\$Cal (paying off the BANs and funding ongoing costs). Every state department/agency will purchase some amount of COPs that support the initial system development, and departments that will transition to the new system in “Wave 1” will pay an additional share.

Allocations to project costs will be determined annually, based on total departmental expenditures. At the end of each year, actual departmental use will be determined and allocations accordingly re-determined. Departments are expected to pay their shares of the project’s costs using their departmental/agency funding sources (i.e. General Fund, and various special funds) in the ratio they are received.

LAO Alternative

The LAO concluded that the benefits of proceeding with Fi\$Cal outweigh the benefits of canceling the program altogether, but identified it as a “close call.” The LAO offers an alternative which provides for greater legislative review, lower initial costs, and less reliance on borrowing. The alternative extends the Fi\$Cal timeline by one year, and the cost by approximately \$67 million over the life of the project. Key components in the LAO’s recommendation include:

- ✓ **Adjust the Schedule.** In order to facilitate legislative review and oversight, the project schedule should be adjusted so that the report on the status of Wave 1 implementation would be presented to the Legislature no later than March 1 after implementation.
- ✓ **Pause for Legislative Approval.** Rather than the 30-day review period provided in the administration’s plan, we recommend that the Legislature decide whether to proceed with full implementation during the regular budget process or through separate legislation. Unlike the administration’s proposal, the project would not proceed with activities to prepare additional departments for system installation until the Legislature has reviewed the report and decided to continue the project. The advantage of this approach is twofold, (1) the Legislature has time to conduct a full inquiry about the project status and, (2) departments that will be implemented in the second phase of the project are not spending project implementation funds until the Legislature has approved the project to continue.

This approach will add a year to the total project schedule because subsequent departments would not begin their one-year preparation until after the Legislature’s review. LAO’s estimate is that over the ten-year schedule, this will increase project cost by approximately \$67 million, (about \$20 million in 2008-09 dollars) compared to the administration’s estimates.

- ✓ **Limit Borrowing During the Initial Phase of Development.** The LAO estimates the total cost of the first four years of their alternative through Wave 1

implementation to be \$461 million. The LAO indicates given the state's fiscal situation and the need to update the state's financial systems, a reasonable case can be made to borrow during 2008-09 and 2009-10. However, beginning in 2010-11, the LAO believes it makes sense to use a more balanced approach—a combination of additional bond financing and pay-as-you-go appropriations. Bond authority of \$250 million represents about 55 percent of estimated Wave 1 project costs. This financing approach will allow adequate time for the administration to set budget priorities that could substantially reduce or even eliminate further borrowing. The Legislature could revisit the issue of additional bond financing, if and when it decides to authorize the remainder of statewide implementation.

- ✓ **Expenditure of Bond Proceeds Subject to Appropriation.** In order to increase legislative oversight of funding, we recommend requiring the administration to obtain annual budget act authority to expend bond proceeds.

Staff Comments: Implementation of a project of this magnitude is unprecedented. The LAO alternative provides for more thoughtful legislative oversight, and more time after Wave 1 implementation to evaluate functionality and “lessons learned” before Wave 2.

In discussions with the LAO and Fi\$Cal project staff, questions arose about the timeline and expense of the LAO alternative. Fi\$Cal program staff believes that the LAO alternative will add two years (instead of one) to the project, because Wave 2 preparations (not simply implementation) will be halted pending review.

Staff Recommendation: The LAO alternative provides more points of legislative oversight and review, as well as appropriate safeguards. Over the lifespan of the project, the additional cost is relatively small, and will potentially prevent the risk of more expensive mistakes by thorough review. Staff recommends that the LAO, in consultation with the Department of Finance, make the appropriate changes in any proposed budget and trailer bill language consistent with the LAO recommendations.